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May 23, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich
From: 
David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Governor's FY 2007-08 May Revision - Estimated Impact on the County

Last week, Governor Schwarzenegger released his May Revision which identified a \$1.4 billion operating deficit. While revenue estimates for the current and budget years improved by \$1.2 billion since January, the May Revision retains the reductions proposed in January, continues to prepay State debt, and provides for a \$2.2 billion year end reserve. The Legislative Analyst's Office's (LAO) overview of the May Revision found the Governor's revenue projections to be reasonable, however, the LAO indicated that they overstate the proposed \$2.2 billion reserve by \$1.7 billion. In addition, the LAO believes that some of the Administration's proposals are overly optimistic and based on risky assumptions. If the LAO's assessment of the May Revision is correct, and the amount of the State's discretionary funds is less than anticipated, there could be a negative impact on the County.

The proposals included in the May Revision do not have a significant impact on the County; however, the impact of the continuing proposed January reductions is a revised \$22.5 million loss to the County. Some of the proposals affecting the County include: 1) loss of \$17 million from the elimination of the Integrated Services for Homeless Adults with Serious Mental Health Illness (AB 2034); 2) a \$7.0 million funding reduction

for the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36); and 3) a \$20 million cost increase in FY 2007-08 to conduct the February 2008 Presidential primary election. The projected impact was partially offset by increased funding for the Health Care Workforce Development Program and the new proposed California Adult Probation Accountability and Rehabilitation Act (CAPARA). The May Revision does not discuss the Governor's Health Care Reform Proposal.

Based on our review of the May Revision, we estimate that the impact to the County will increase to a loss of \$42.9 million. The variance from the January Budget is attributed to the lack of funding to restore the Property Tax Administration Program (\$13.5 million), and a reduction in funding to the proposed CAPARA Program (\$6.9 million). The loss is partially offset by the Governor's proposal to allocate \$2.0 million for planning activities for the replacement of the LEADER System.

Assembly and Senate budget subcommittees started hearings this week to address outstanding issues and transmit their respective budget proposals to the Budget Conference Committee which is anticipated to begin hearings next week. As of yesterday afternoon, subcommittees have voted to: restore the proposed reduction to the Proposition 36 Program; increase funding for the Adult Protection Services Program (APS); reject the Governor's CalWORKs reform proposals; adopt placeholder Trailer Bill Language (TBL) to implement semi-annual reporting in CalWORKs and Food Stamps; and reject the Administration's proposal for cost of doing business adjustments and adopt placeholder TBL to restore the process of budgeting for these adjustments. A subsequent report detailing the subcommittee actions is forthcoming.

Consistent with our May 14, 2007 analysis of the May Revision, the attached chart provides a breakdown of the estimated impact of the Governor's January and May Budget proposals on the County by program. Please note the table only illustrates the potential loss/gain of State funding, and it does not reflect a definite impact to the County.

Budget Items that Impact the County

Integrated Services for Homeless Adults with Serious Mental Illness. The May Revision retains the Governor's Budget proposal to eliminate the \$54.9 million AB 2034 Program, which provides funding to local mental health agencies to act as the single point of responsibility for comprehensive services for individuals who are homeless or at risk of homelessness or incarceration and have a serious mental illness. The Department of Mental Health advises that the elimination of this program would result in a \$17 million loss of revenue and the discontinuation of intensive mental health services to over 1,700 adults with severe mental illness.

Proposition 36 Program. The May Revision retains the Governor's Budget proposal to reduce Proposition 36 funding by \$60 million in FY 2007-08, and transfer this funding to

the Substance Abuse Offender Treatment Program which requires a ten percent County match. The total funding for this program compared to FY 2006-07 would be reduced by \$25 million Statewide. The estimated impact on the County from this reduction is approximately \$7.0 million.

2008 Presidential Primary Election. SB 113 (Chapter 2, Statutes of 2007), requires the 2008 Presidential primary election to be moved from June 2008 to February 2008. The May Revision proposes an increase of \$11.7 million for the Secretary of State to conduct the election; however, it does not include funding to reimburse counties. While the May Revision states the Administration's intent to reimburse counties in FY 2008-09, the County will have to fund the election in FY 2007-08. It is estimated that the cost for the County to conduct the election would be approximately \$20 million.

Property Tax Administration Program. As part of the 2005 Budget Act, the State suspended the Property Tax Administration Program (PTAP) for two years with the expectation that the program would be reinstated in FY 2007-08. Neither the Governor's Budget nor the May Revision restores funding for county property tax administration. The County's annual share of the program was \$13.5 million.

Health Care Workforce Development Program. The May Revision retains the Governor's Budget proposal to make the final \$5.7 million installment of State funds to the County to complete the State's training commitment for healthcare employees. This commitment was made in 2000 as part of the County's Section 1115 Medicaid waiver.

California Adult Probation Accountability and Rehabilitation Act. The May Revision reduces funding for the Governor's Budget proposal from \$50 million to \$25 million in FY 2007-08. CAPARA would provide funding to support local adult probation services targeting the at-risk 18 to 25 year old probation population. The new program is to be modeled after the Juvenile Justice Crime Prevention Act Program, and we anticipate that program funding will be allocated on a population basis. This proposal reduces the amount the Probation Department would receive from approximately \$13.8 million, to \$6.9 million.

Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) System. The May Revision retains the Governor's Budget proposal to allocate \$2.0 million for planning activities for the LEADER system replacement.

Other Budget Items of County Interest

Cost of Doing Business. Since June 2001, the State has not granted cost of doing business adjustments to counties for the administration of various mandated human services including: APS, Adoptions, CalWORKs, Child Welfare Services, Food Stamps Administration, Foster Care Eligibility, and In-Home Supportive Services. As a result, increased costs for salaries, health benefits, workers compensation, leases, utilities,

and other related costs have been shifted to counties. Earlier this year, the California State Association of Counties, California Welfare Directors Association, and the Urban Counties Caucus estimated that the State's failure to fund cost of doing business adjustments for the past six years has shifted an estimated \$793 million per year to counties. The estimated impact on the County for these essentially unavoidable cost increases is approximately \$238 million.

The May Revision released the results of a county survey, as required by AB 1808 (Chapter 75, Statutes of 2006), to estimate the actual costs incurred by counties for administering human services programs on behalf of the State. According to the survey, the State has not funded an estimated \$835.8 million (\$459.7 million General Fund) annually. The May Revision proposes a new methodology for FY 2008-09 to fund county costs to administer these programs. While the proposed methodology is a positive development, it proposes annual funding adjustments tied to salary and benefit increases provided to State employees, requires counties to meet specific performance standards and to share in the cost of penalties; however, the proposal fails to include language to ensure that stable and predictable funding is aligned with county program responsibilities.

On May 21, 2007, Assembly Budget Subcommittee No. 1 and Senate Budget Subcommittee No. 3 voted to reject the May Revision proposal, and adopted placeholder Trailer Bill Language to restore the process of budgeting human services programs based on "reasonable current costs to deliver services."

CalWORKs Reforms. The May Revision retains the Governor's Budget proposal for reforms to meet Federal work participation requirements, avoid possible Federal penalties, and achieve savings. However, the May Revision reduces the estimated savings from \$324.4 million to \$315 million. The proposed changes include:

- 1) Full family sanctions for CalWORKs families when the adult does not comply with work requirements beyond 90 days;
- 2) Elimination of CalWORKs payments after the 60-month time limit for children when the able-bodied adult fails to meet the Federal work participation requirements;
- 3) Limiting of child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon or a fleeing felon;
- 4) Changing the CalWORKs and Food Stamp reporting requirement from quarterly to semi-annual effective January 1, 2009.

As indicated in our February 15, 2007 Sacramento Update, while the Governor's proposed changes primarily affect CalWORKs participants, there is a potential cost shift

to the County's General Relief (GR) Program, as participants who are terminated from CalWORKs could apply to participate in the GR Program. The Department of Public Social Services estimates that CalWORKs assistance would be terminated for 66,118 to 91,946 children if the Governor's reforms are enacted. As an example of the impact on the County, if 50 percent of these children were to qualify for GR benefits, we estimate an increase in net County cost between \$74.2 million to \$103.2 million.

Transfer of Juvenile Justice Population to Counties. The May Revision retains the Governor's Budget proposal to begin shifting non-violent juvenile offenders from State to local facilities starting July 1, 2007, and provides \$53 million in block grant funding to counties to support the program and housing needs of this population. The State will also stop accepting female juvenile offenders. Since a detailed proposal has not been released, there is not sufficient information to estimate the programmatic and fiscal impact on the County. However, there is a high level of interest by the Administration, the Legislature, the Chief Probation Officers Association, and other stakeholders to reach an acceptable agreement which keeps juvenile offenders closer to home.

Reimbursement for State Inmates. The May Revision includes \$6.1 million to reimburse the Sheriff's Department for costs associated with the delay in moving State inmates out of the Pitchess Detention Center. This proposed amount is to reimburse the County for services already provided to the State under an existing agreement. It is not a funding augmentation for the County.

Williamson Act Subsidy. The May Revision proposes to permanently eliminate all funding for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts. The estimated loss of funding Statewide is \$39.1 million. This proposal primarily affects rural counties, but the County will lose about \$40,000 from a subsidy for agricultural land in Catalina Island.

Consistent with County policy, our Sacramento advocates will pursue restorations and augmentations through the budget process.

We will continue to keep you advised.

DEJ:GK
MAL:MR:acn

Attachment

c: All Department Heads
Legislative Strategist
Local 660
Coalition of County Unions
California Contract Cities Association
Independent Cities Association

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FROM THE GOVERNOR'S FY 2007-08 PROPOSED BUDGET**
(In Millions)

	January Budget	May Revision
<u>Reductions / Unfunded Programs :</u>		
Integrated Services for Homeless Adults with Serious Mental Illness Program	(17.0)	(17.0) ⁽¹⁾
Substance Abuse Crime Prevention Act Program (Proposition 36)	(7.0)	(7.0) ⁽²⁾
February 2008 Presidential Primary Election	(20.0)	(20.0) ⁽³⁾
Property Tax Administration Program	0.0	(13.5) ⁽⁴⁾
	<u>\$ (44.0)</u>	<u>\$ (57.5)</u>
<u>Augmentations / Restorations :</u>		
Health Care Workforce Development	5.7	5.7 ⁽⁵⁾
California Adult Probation Accountability & Rehabilitation Act Program	13.8	6.9 ⁽⁶⁾
LEADER System Replacement	2.0	2.0 ⁽⁷⁾
	<u>\$ 21.5</u>	<u>\$ 14.6</u>
Estimated Net Impact	\$ (22.5)	\$ (42.9)

Notes:

- (1) Reflects the estimated impact to the Department of Mental Health based on the elimination of the AB 2034 Program.
- (2) Reflects potential impact to the County based on the Governor's proposed funding reductions to the Proposition 36 Program.
- (3) Reflects the estimated cost for the County to conduct the February 2008 Presidential Primary Election. While the May Revision indicates the Administration's intent to provide reimbursement in FY 2008-09, the County will have to fund the election in FY 2007-08.
- (4) PTAP was suspended as part of the 2005 Budget Act with the understanding that it would be reinstated in FY 2007-08. The program was not restored in neither of the budget proposals.
- (5) Reflects funding to complete the State's training commitment for healthcare workers under the County's 1115 Waiver of 2000.
- (6) Reflects May Revision proposal to reduce funding from \$50 million to \$25 million Statewide for the new county adult probation program.
- (7) Reflects Governor's proposal to allocate funding in FY 2007-08 for planning activities for the replacement of the LEADER system.

This table represents the estimated loss/gain of State funds based upon the Governor's January and May Revision Budget proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.